

Beneficiaries' financial resources and financial liability

ISSUE: A primary purpose of the Medicare program is to improve beneficiaries' access to care. Beneficiaries' out-of-pocket spending on health care plays a prominent role in their access to care. This brief analyzes the current state of beneficiaries' liability from out-of-pocket spending, whether that liability has been getting better or worse, and how that liability might change in the future. The materials expand on questions raised by Commissioners regarding beneficiaries' financial circumstances and how costs of care affect access and use of services. Our analysis provides a platform for future work, such as modeling the effects of changes in program benefit structure and financing.

KEY POINTS: Highlights from our analysis include:

- On average, out-of-pocket spending is 20 percent of beneficiaries' income. However, out-of-pocket spending is less than 20 percent of income for nearly three-fourths of beneficiaries, while out-of-pocket spending is a very large share of income for a relatively small group of beneficiaries.
- From 1981 to 2001, out-of-pocket spending increased as a percentage of beneficiaries' income, which may suggest burden has been increasing. Over the same time frame, however, beneficiaries' income increased by a larger magnitude than their out-of-pocket spending (even though income increased by a smaller percentage). The result is that income net of out-of-pocket spending was nearly constant, which may indicate that burden from out-of-pocket spending did not change much.
- Out-of-pocket spending is a larger percentage of household income among people age 65 or older than among people under age 65. In addition, household income net of out-of-pocket spending is lower among the aged than among those under age 65. These results suggest health care costs are a greater financial burden among the elderly.
- Relatively high out-of-pocket spending as a percentage of income tends to be associated with certain characteristics: low income, age 85 or older, poor health, and no supplemental insurance.
- For future retirees, employer sponsored insurance (ESI) is declining as a potential source of coverage to supplement Medicare. This may increase beneficiaries' burden from health care costs because ESI is typically more generous than other forms of supplemental insurance.
- The drug benefit in the MMA will reduce beneficiaries' burden from out-of-pocket spending. However, the drug benefit has cost sharing for which the beneficiary is responsible, and the cost sharing will increase over time.

ACTION: This material is intended to be an appendix in the June 2004 Report to the Congress. Staff are seeking feedback on methods and content.

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